

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

214 O'Neill HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

January 23, 2002

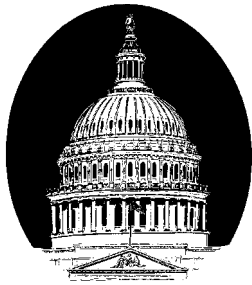
New Budget Forecasts: Deficits are Back

Dear Democratic Colleague,

We have just received from the Congressional Budget Office (CBO) the new budget forecasts for the next ten years. Attached is a statement I just issued about the new CBO numbers and a new set of graphs prepared by the House Budget Committee Democratic staff analyzing the budget picture. These materials are also available at the House Budget Committee Democratic website. Please do not hesitate to call me or the Democratic staff of the House Budget Committee with any questions.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



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STATEMENT OF CONGRESSMAN JOHN SPRATT RANKING DEMOCRAT, HOUSE BUDGET COMMITTEE

A month ago, President Bush said that his Administration had “brought sorely needed fiscal discipline to Washington.” Today, the Congressional Budget Office reports that \$4 trillion of the ten-year surplus has vanished. Last January, CBO projected a surplus of \$359 billion for Fiscal Year 2003. This January, CBO projects a \$14 billion deficit—a reversal of almost \$400 billion in one year, the greatest one-year reversal in our nation’s history. If this is fiscal discipline, it has a strange bottom line.

The Republican budget has broken the bipartisan commitment to save the Social Security Trust Fund surplus. War, recession, and tax cuts have overtaken the budget. Adhering to this budget, in the face of this report, is not fiscal discipline; it’s fiscal denial.

CBO’s report confirms concerns about the Republican budget that Democrats have raised for an entire year:

1. Read my lips: No more surpluses. In one year, \$4 trillion of the unified surplus has vanished, and the on-budget surplus has become an on-budget deficit.

At the beginning of last year, CBO projected a surplus of \$2.0 trillion over the five-year period 2002-2006. Now CBO expects unified budget deficits in 2002 and 2003, and a cumulative surplus of just \$0.25 trillion — a decline of 88 percent.

At the beginning of last year, CBO projected a surplus of \$5.629 trillion over the ten years 2002-2011. Now, CBO expects a cumulative surplus of just \$1.602 trillion — a reduction of 72 percent.

At the beginning of the year, CBO projected an on-budget surplus of \$3.12 trillion over the ten year period 2002-2011. Now CBO expects an on-budget deficit of \$845 billion over the same period.

2. Over the next decade, the single largest reason for the vanishing surplus is the tax cut.

President Bush is correct when he says that the government cannot, and should not, try to control the deficit while the economy is in a downturn. That could make the downturn deeper. But what matters most is not where we are, but where we are going, and the government should look to the long run, after the recession is ended. CBO confirms that over the long run, the tax cut is the primary cause for the disappearance of the surplus.

3. The Republican budget makes a mockery of all the rhetoric about a "lockbox," and breaks a bipartisan promise to save the Social Security surpluses.

The Republican budget will siphon hundreds of billions out of the Social Security trust funds into the general fund of the Treasury, where it will be spent. In Fiscal Year 2000, capping eight consecutive years of improvement in the budget, the federal government achieved a budget that saved all of the surpluses in the Social Security and Medicare trust funds. Under President Bush, this string of budget improvements did not last one more year. The surplus declined in 2001, and the federal government once again tapped the Social Security trust fund surplus to finance day-to-day operations.

CBO now projects that, barring a change in policy, the federal government will run unified budget deficits in 2002 and 2003, and will find itself borrowing again from the private sector to fund government operations.

Beyond 2003, the bad news continues. Just a year ago, CBO projected that the federal government would save the Social Security and Medicare surpluses in each and every year in the ten-year budget window, and as a result, we could effectively buy up all of the \$3.4 trillion in Treasury bonds held by the public, with room to spare. Now CBO expects the federal government to tap the Social Security surplus for approximately \$740 billion to finance day-to-day operations of the government every year until at least 2010. The Medicare surplus is projected to be consumed totally until that year.

The budget's projected return to surplus outside the Social Security Trust Fund surplus turns on the assumption that last year's tax cut will be repealed at the end of 2010, as the tax act provides. If the tax cuts do not expire at the end of 2010 — and the Administration and Congressional Republicans insist that they will not — CBO projects that the budget will not return to non-Social Security surplus until at least 2012.

Every American should be troubled about the long-term prospects for the budget. The first of the baby boomers, born in 1946, will turn 62 and begin to draw Social Security benefits in 2008. The nation has six years before their demographic impact on the budget becomes a reality; and the Bush Administration's fiscal policies put the budget in deficit until past that time.

4. The reversion to deficits means that an extra \$1.033 trillion will be spent on interest payments.

For the federal government, as for households, interest payments are sterile expenditures. They fulfill obligations incurred in the past and buy nothing new.

A year ago, the Administration and Congressional Republicans professed concern over the possibility of paying down the nation's debt too quickly. They claimed that within the next ten years they would pay the debt down until all that was left were long-term instruments not yet matured. More than the face amount of those bonds would be left over in cash. But now that the budget is back in deficit, paying the debt down to that level is no longer possible.

As a result, relative to last year, CBO now projects that the federal government will pay \$1.033 trillion more in debt service over 2002-2011 than CBO projected just one year ago, despite lower interest resulting from a weak economy.

5. Far from being chastened by a budget sinking into deficit on their watch, Republicans propose more of the same.

With the economy in recession and unemployment rising, Republicans are pushing a "stimulus plan" that would drain billions from the Social Security and Medicare surpluses, but do little to stimulate the economy. Despite more than a trillion dollars of tax cuts to those who need it least already in the pipeline, the Republican congressional leadership and the President seek still more for large corporations and high-income taxpayers.

What's more, says CBO, the Republican stimulus programs won't work. Using basic economic analysis, the CBO gave its lowest marks to the Republicans' tax proposals, which include abolishing the corporate alternative minimum tax (AMT), sheltering the overseas income of financial holding companies, and accelerating upper-bracket rate cuts in last year's tax bill.

6. The new budget numbers are as good as they will get. From here on, everything that the Congress and the Administration pass that increases spending or decreases revenues will worsen the bottom line.

CBO's budget projections are built on a current services baseline. They assume current policy and nothing more. No stimulus bill, no Medicare drug coverage, no increases for defense or education. Every spending initiative or tax cut that passes from here on will only make the budget worse.

7. CBO projects that the economy will soon recover and begin to grow again, but growth will not deliver us from a new era of unending deficits.

Assuming that the 2010 "repealer" in the Bush tax act is itself repealed, CBO shows an on-budget deficit until at least the last year in its forecast, 2012; and the forecast assumes an economy growing at a rate better than 3% a year starting in 2003.

House Budget Committee Democratic Staff

CBO's January Baseline

January 23, 2002

The 10-Year Unified Budget Surplus

Trillions of Dollars

	2002-2011	2003-2012
May 2001	5.629	N.A.
August 2001	3.397	N.A.
January 2002	1.602	2.263

Source: Congressional Budget Office

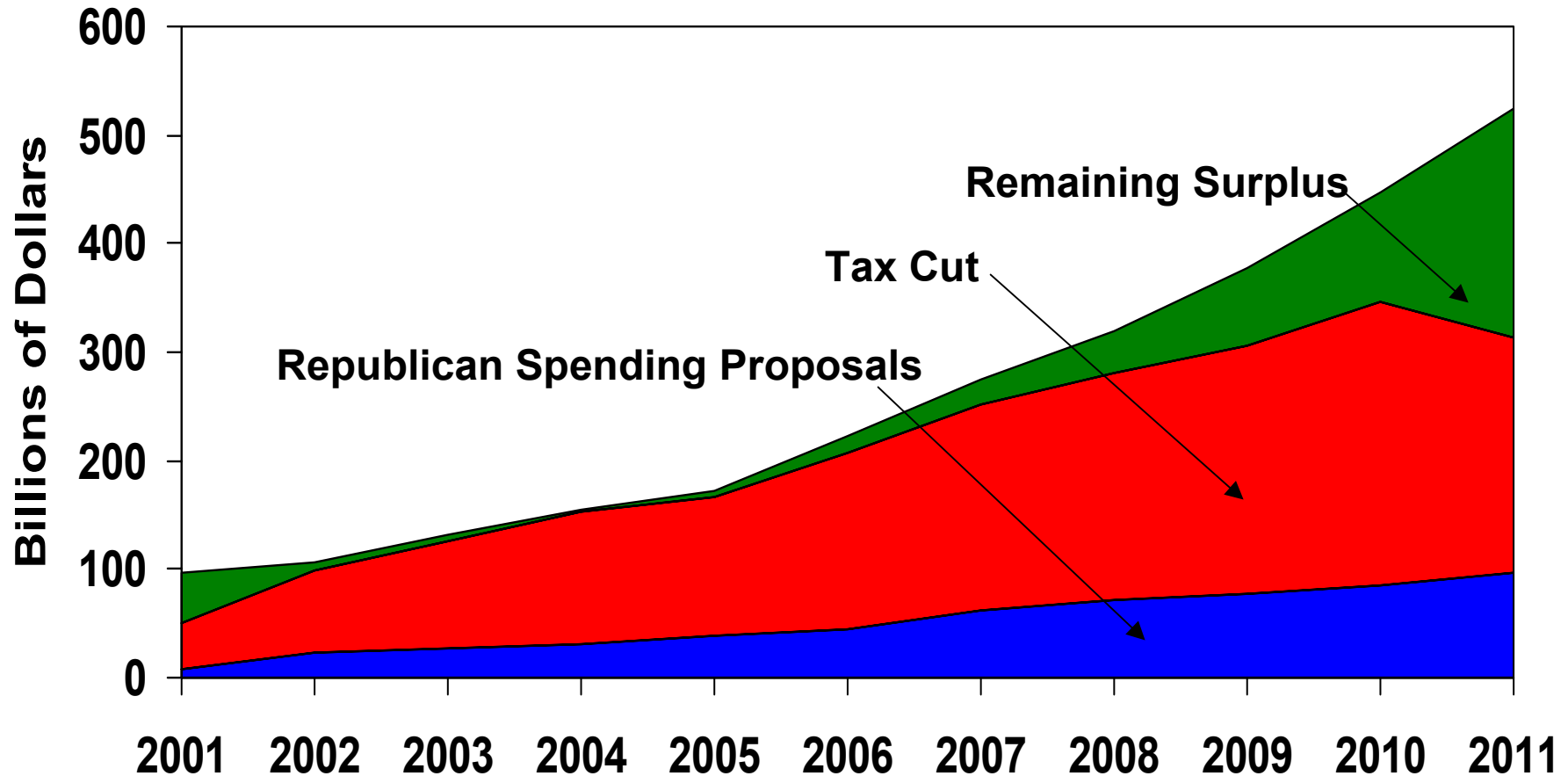
The 10-Year On-Budget Surplus

Trillions of Dollars

	2002-2011	2003-2012
May 2001	3.142	N.A.
August 2001	0.847	N.A.
January 2002	-0.742	-0.242

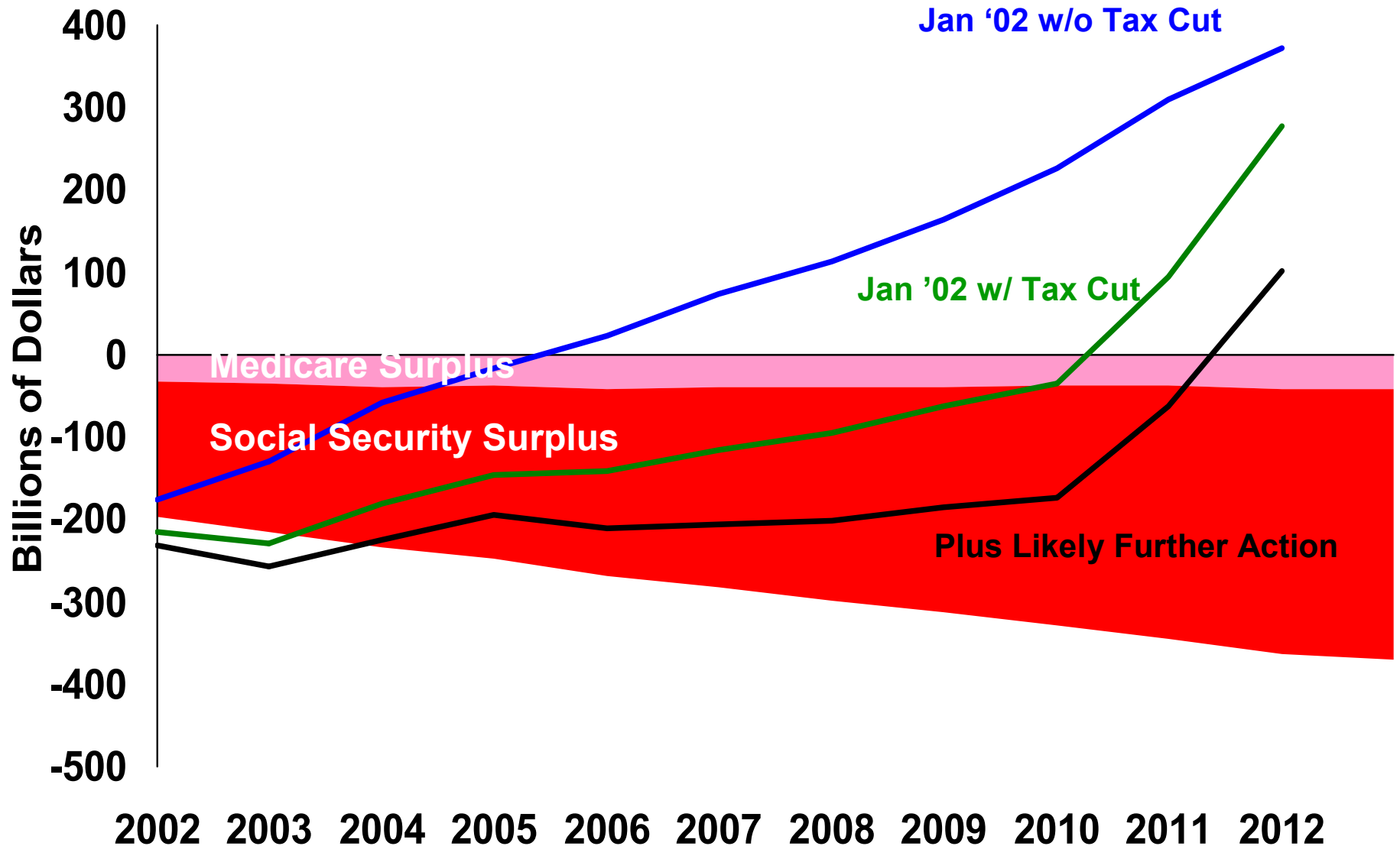
Source: Congressional Budget Office

Last Year's Republican Budget Left No Margin for Error

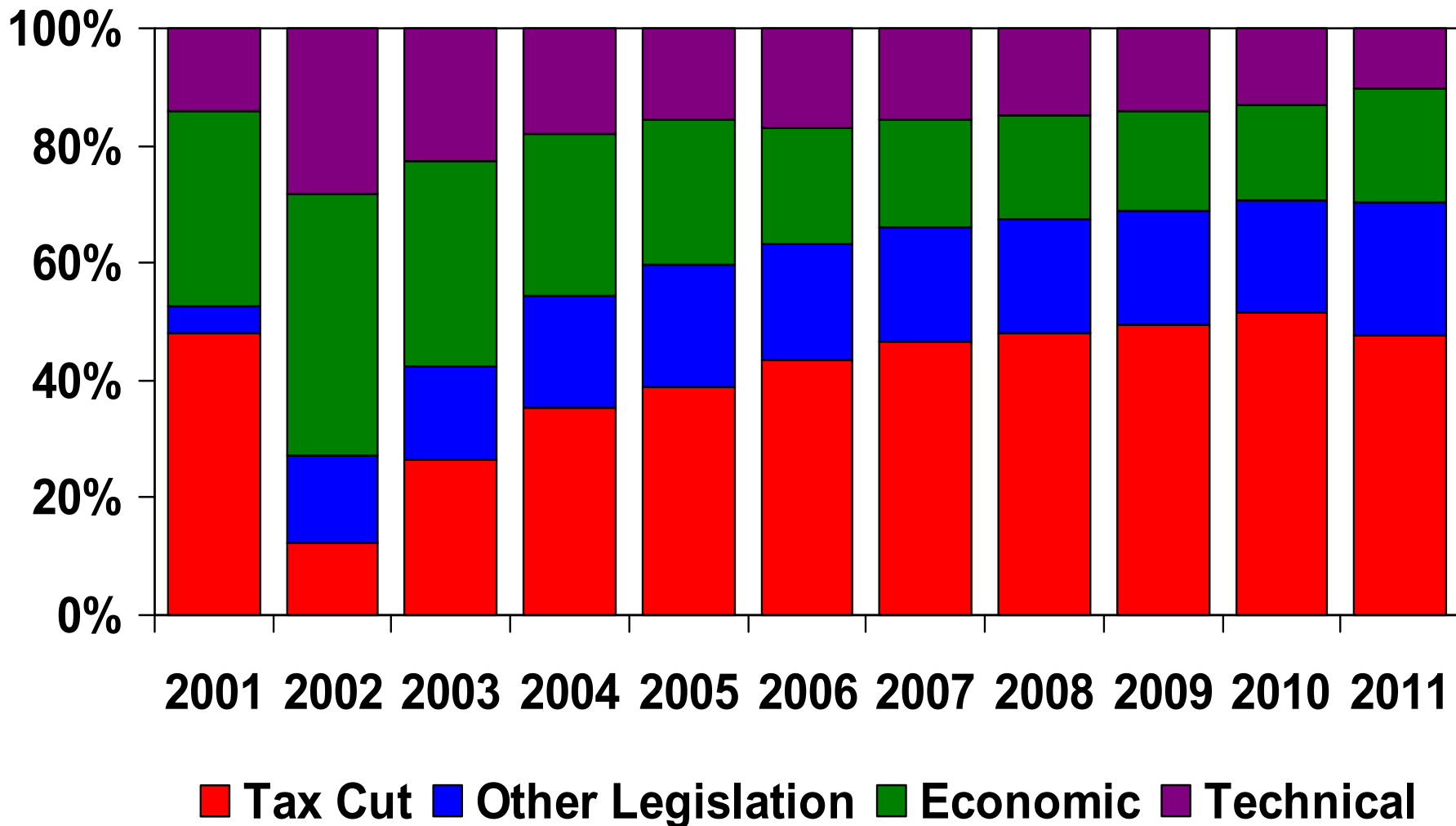


**April 2001 Projection of Non-Medicare, Non-Social Security Surplus;
Tax and Spending Proposals in Last Year's Republican Budget Resolution**

What Happened to the Surplus?



The Tax Cut Did the Most to Reduce the Surplus



THE TAX CUT RAIDS SOCIAL SECURITY

MAY 2001 BASELINE	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>'02-'11</u>	<u>'03-'12</u>
Unified Surplus	304	353	400	437	508	578	641	718	806	883	n/a	5,629	n/a
On-Budget Surplus	132	166	197	215	270	322	366	425	495	553	n/a	3,142	n/a

AUGUST 2001 BASELINE

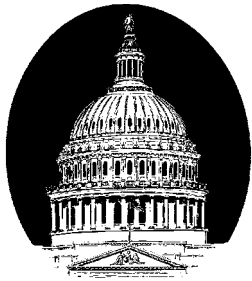
Enacted Tax Cut, With Interest	41	98	122	128	164	189	208	228	260	215	n/a	1,653	n/a
CBO Economic and Technical	76	74	67	54	45	37	32	27	25	24	n/a	461	n/a
All Other	<u>11</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>n/a</u>	<u>117</u>	<u>n/a</u>
Resulting Unified Surplus	176	172	201	244	289	340	389	450	507	628	n/a	3,397	n/a
Resulting On-Budget Surplus	0	-18	-3	21	47	78	106	147	184	283	n/a	846	n/a

JANUARY 2002 BASELINE

Legislation	39	50	55	59	64	67	72	76	81	87	n/a	649	n/a
Economic Reestimates	100	77	45	42	44	51	59	70	75	83	n/a	645	n/a
Technical Reestimates	<u>58</u>	<u>59</u>	<u>47</u>	<u>41</u>	<u>54</u>	<u>56</u>	<u>55</u>	<u>55</u>	<u>57</u>	<u>20</u>	<u>n/a</u>	<u>501</u>	<u>n/a</u>
Resulting Unified Surplus	-21	-14	54	103	128	166	202	250	294	439	641	1,602	2,263
Resulting On-Budget Surplus	-181	-193	-141	-108	-99	-76	-56	-23	4	131	319	-742	-242
Medicare Spent	-33	-36	-38	-38	-42	-41	-40	-39	-34	0	0	-341	-308
Social Security Spent	-163	-179	-141	-108	-99	-76	-56	-23	n/a	n/a	n/a	-845	-682

LIKELY FURTHER ACTION

Farm Bill and Natural Disasters	4	10	13	14	14	14	14	14	13	13	13	124	133
Defense / Homeland	10	13	23	19	22	22	22	22	22	22	22	197	209
Tax Extenders & AMT	<u>1</u>	<u>2</u>	<u>4</u>	<u>11</u>	<u>25</u>	<u>39</u>	<u>50</u>	<u>61</u>	<u>73</u>	<u>83</u>	<u>93</u>	<u>350</u>	<u>443</u>
Total Impact (incl. interest)	15	27	44	50	71	89	105	121	139	157	176	818	979
Resulting Unified Surplus	-35	-41	10	53	57	78	97	129	155	282	465	784	1,284
Resulting On-Budget Surplus	-195	-220	-185	-158	-169	-165	-161	-145	-136	-26	143	-1,560	-1,221
Medicare Spent	-33	-36	-38	-38	-42	-41	-40	-39	-38	-37	0	-381	-349
Social Security Spent	-163	-179	-185	-158	-169	-165	-161	-145	-136	-26	n/a	-1,487	-1,323



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January 10, 2002

REPUBLICAN CLAIMS ABOUT THE BUDGET

Republicans Claimed that the Social Security Trust Fund Surplus Would Be Protected

To make sure the retirement savings of America's seniors are not diverted into any other program, my budget protects all \$2.6 trillion of the Social Security surplus for Social Security and for Social Security alone.

President Bush, Address to Joint Session of Congress, February 27, 2001

Inherent in the budget, of course, is our desire to make sure we protect Social Security—I think there is unanimity on the table for that—that we set clear priorities, that we fund the priorities. In our budget, we're going to prove to the American people that we can pay down debt, fund priorities, protect Social Security, and there will be money left over, which we strongly believe ought to be passed back to the taxpayers.

President Bush, Remarks at Meeting with Members of House and Senate Budget Committees, February 15, 2001

None of the Social Security surplus will be used to fund other spending initiatives or tax relief.

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget, February 28, 2001, Page 11

We are going to wall off Social Security trust funds and Medicare trust funds . . . And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all.

House Speaker Dennis Hastert, quoted in *BNA Tax Reporter*, March 2, 2001

Republicans Claimed that Their Budget Left a Margin for Error

We should also prepare for the unexpected, for the uncertainties of the future. We should approach our Nation's budget as any prudent family would, with a contingency fund for emergencies or additional spending needs . . . And so, my budget sets aside almost a trillion dollars over 10 years for additional needs.

President Bush, Address to Joint Session of Congress, February 27, 2001

Tax relief is central to my plan to encourage economic growth, and we can proceed with tax relief without fear of budget deficits, even if the economy softens. Projections for the surplus in my budget are cautious and conservative. They already assume an economic slowdown in the year 2001.

President Bush, Remarks at Western Michigan University, March 27, 2001

In sum, there is ample room in the Administration's budget to pay off debt as far as possible, to reduce taxes for American families to fund program priorities, and still leave roughly \$1.0 trillion for Medicare modernization and to meet other programmatic and contingency needs as they arise.

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget, February 28, 2001, Page 13

There has been considerable public discussion of the potential downside risks to the surplus projections. However, the greatest "risk" to accurate forecasting in recent years has been on the upside as a result of stronger than expected revenue growth and weaker than expected outlay growth. Revenues have contributed most to surplus underestimates . . .

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget, February 28, 2001, Page 14

Republicans Claimed that Their Budget Would Pay Down Maximum Debt

We owe it to our children and grandchildren to act now, and I hope you will join me to pay down \$2 trillion in debt during the next 10 years. At the end of those 10 years, we will have paid down all the debt that is available to retire.

President Bush, Address to Joint Session of Congress, February 27, 2001

This new approach is also responsible: It will retire nearly \$1 trillion in debt over the next four years. This will be the largest debt reduction ever achieved by any nation at any time. It achieves the maximum amount of debt reduction possible without payment of wasteful premiums. It will reduce the indebtedness of the United States, relative to our national income, to the lowest level since early in the 20th Century and to the lowest level of any of the largest industrial economies.

A Blueprint for New Beginnings: A Responsible Budget for America's Priorities
Office of Management and Budget, February 28, 2001, Page 3